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**CANNON
MINES
LIMITED**

INTERIM PROGRESS REPORT TO THE SHAREHOLDERS MAY 15, 1967



A REPORT FROM THE PRESIDENT

With the approach of the long summer season of mining exploration, it is appropriate, in view of the fact that your Company now holds four properties in four different provinces, to apprise shareholders of the field programs planned, and briefly review the background of each property. It is intended that further progress reports will be made from time to time in the months ahead as the various programs advance.

We have asked our consulting geologist, R. Massey Williams, P.Eng., to report on and appraise each of the four properties. It is on his recommendation that work will be done on three of the groups, with a "watching brief" held on the fourth to assess the results of work on the adjoining ground. Your Company's four properties include:

1. A group of eight claims in the Adams Lake area, Kamloops mining division, British Columbia. Geophysical and geochemical surveys were carried out on this property last year, with results reported below.
2. In the recently-active Burntbush area of northeast Ontario where it is reported that Texas Gulf Sulphur has made a base metals find and is carrying out extensive exploration, your Company has acquired a group of 25 claims in Newman Twp., in a favorable geological environment.
3. Holdings in the Carpentier-Montgay Twps. district of Quebec have been reduced to 6 claims, which were the focal point of our exploration activity last year.
4. A group of 15 claims has been acquired in the prolific Bathurst area of New Brunswick on which geophysical work is recommended.

ADAMS LAKE, B.C.

Commercial values in silver, copper, lead and zinc in short lengths were encountered in sampling work on this property in an examination of old workings by a previous owner ten years ago. Last summer, as part of the recommendation of a Vancouver consulting geologist, a program of geophysical and geochemical surveying was carried out for your Company by Sulmac Exploration Services Limited.

Williams reports that no extension of the mineralized zone was indicated by the surveys, but it is recommended that the second part of the original program be now carried out — bulldozing, stripping and sampling in the immediate vicinity of the old workings to enlarge the mineralized area in an effort to increase the tonnage potential. A contract for this program has been signed with Saturn Mining and Exploration Services Ltd.

BURNTBUSH AREA, ONTARIO

The release of aeromagnetic maps in 1964 stimulated renewed interest in this area of northeast Ontario near the Quebec border in the Cochrane mining division. Williams reports that the Texas Gulf Sulphur interests have been working in the area since last spring following up airborne anomalies. They have apparently made a discovery of zinc in the southwestern portion of Tomlinson Twp., our consultant notes, following which they staked a number of claim groups related to the air magnetics and the belt of sedimentary and volcanic rocks.

Tomlinson Twp. is immediately east of and adjacent to Newman Twp. where your Company's claims are located, adjoining to the west of claims which are held by the Texas Gulf Sulphur interests.

Last December the Ontario Dept. of Mines released a preliminary map of the Burntbush area. It shows that Newman Twp. lies on the western nose of a sedimentary-volcanic belt, one arm of which swings off towards Quebec (north and east), the other to the south and east. Williams reports that the Texas Gulf zinc discovery is reported to lie on the southeast arm. Claims have been staked on both arms, with emphasis toward the western nose of the belt, particularly in western Newman and Tweed Twps.

Your Company's claims cover the magnetic belt in the southwestern portion of Newman Twp. Williams appraises the property as favorably located in relation to the airborne magnetic results and to the sedimentary-volcanic belt. He has recommended a program of ground geophysical survey in the form of a combined magnetometer and electromagnetic survey. The services of Barringer Research Ltd. have been engaged to carry out this work.

CARPENTIER-MONTGAY TWPS., QUEBEC

Last year, your Company carried out a diamond drilling program on this property to test two anomalies outlined in previous geophysical work, using the self potential method. Four holes for a total of 1,000 feet were drilled on the anomalies. While they confirmed the presence of pyritic mineralization, nothing of commercial value was cut.

On the basis of assessment credits accumulated by this work, our consultant recommends that 800 of the 1,200 acre property be retained in good standing. He further reports he has been advised that the property adjoining to the north will be drilled in the immediate future and adds that it will be important to hold a "watching brief" as to the results of this work in relation to the "B" anomaly on your Company's claims.

BATHURST, NEW BRUNSWICK

This 15-claim, 600-acre property is located in Northumberland County about 34 miles west-south-west of Bathurst. The ground is virtually unexplored, Williams reports.

The Bathurst area is, of course, well known as the location of the two major deposits of lead-zinc-silver-copper ore of Brunswick Mining & Smelting. There are two other producing mines in the area — Heath Steele, and the Wedge mine owned and operated by Cominco — and several in various stages of development.

Williams reports that a number of base metal deposits have been developed in the area in recent years in similar rock types to those that underlie your Company's group. They were localized by a combination of geophysical and geochemical surveys — which methods have been recommended for your Company's claims, starting with the geophysical work. Sulmac Exploration Services Ltd. will undertake this work for your Company.

* * *

The cost of the various programs your Company is about to embark on has been estimated at \$24,750.

In addition to the above programs, your Company has also participated in the underwriting of shares of Lake Kozak Mines Limited, which is about to launch a two-phase program on a gold-silver property in the Algoma district of Ontario. For the information of shareholders, a copy of the prospectus of Lake Kozak Mines is included with this report. We point out that this is for informational purposes only, in view of your Company's interest and is not to be construed as an offering of or solicitation for the shares of Lake Kozak Mines.

Your Company is embarking on an ambitious work program in the months ahead. Our financial position is adequate for the programs recommended, with approximately \$87,000 cash on hand. As the various programs advance, further progress reports will be issued in order that shareholders may be kept fully informed of results.

Finally, we wish to report a change in the Board of Directors. With the resignation of Mr. R. Askew, Mr. G. C. Snell has been appointed Vice-President and Director. Mr. E. B. Ashton, Sr., is also Vice-President and Director. Mr. E. B. Ashton, Jr., is Treasurer and Director and Miss M. F. Butterfield is Secretary and Director.

On behalf of the Board of Directors,

FRANK CANNON,
President

May 15, 1967



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